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Wartime Economy of Britain and France

BY D. H. POPPER and J. C. deWILDE

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This is the second of two Foreign Policy Reports on war economy. The first was "Germany's Wartime Economy," which appeared on June 15, 1940. Both should be read in connection with "Europe's Economic War Potential," published on October 15, 1939.

IN carrying out an unprecedented peace-time national defense program and providing for the contingency of war, the United States must pay more attention than ever before to plans and measures of economic mobilization. Already the government has been compelled to take extraordinary steps to obtain the industrial capacity, man power and materials needed for the production of arms. The extent of this governmental intervention in economic life will be determined by the scale and pace of our preparations for war. As our armament program grows more ambitious, we must be willing to depart more sharply from normal business and normal life. In any case, the American people can profit from the experience of two other democracies—Britain and France. Within the last year these countries have had to convert their entire economic structure from production for welfare to production for war. The success or failure of their efforts affords some indication of the measures which we must take or avoid.

In making this study of the war economy of the Allies, the authors realize that their information is far from adequate. The available material is often so scanty that only tentative conclusions can be drawn. The present report is therefore hardly exhaustive. Although primarily a critique of the economic mobilization carried out by the Allies, it is not intended to disparage the war efforts of France and Britain, or the sacrifices made by their citizens. If a disproportionate amount of space has been devoted to an exposition of their shortcomings, it has been done primarily with the intention of pointing out the pitfalls which the United States, if faced with a similar situation, must avoid.

BRITAIN'S WAR ECONOMY

The outbreak of "total war" in the West brought to light serious deficiencies in Britain's program of economic mobilization. British forces did not have enough planes, tanks and other equipment to meet the onslaught of the Nazi military machine. In common with other democratic countries, Britain had underestimated the formidable military, and even economic, power of Nazi Germany. Once the German army had broken through the Low Countries into France, the British people realized the full extent of the emergency and demanded more vigorous men and measures to deal with it. The mediocre Chamberlain cabinet yielded to a coalition government, headed by the energetic Winston Churchill and including the best men in the Liberal and Labor Opposition. On May 22 Parliament rapidly enacted a new Emergency Powers Defense Bill enabling the government to conscript persons and property for the prosecution of the war. The government was empowered to take over complete control of factories; and the Minister of Labor was authorized to mobilize labor for any vital task, and prescribe wages, hours and other conditions of work.¹ Thus the basis was laid for a tremendous quickening of the war effort. The omissions of the past, however, could not be remedied overnight.

ADMINISTRATIVE DEFICIENCIES

Until May 1940 the general authority for economic mobilization was contained in the Emergency Powers Act of August 24, 1939, and the Defense Regulations issued pursuant thereto. These gave the government power to assume control over communications, shipping and railways, and to regulate production, storage, distribution, consumption and prices.² The machinery to admin-

1. *The New York Times*, May 23, 1940; also *The Times* (London), May 23, 1940.

2. Cf. Office of the Parliamentary Council, *Defense Regulations being Regulations made under the Emergency Powers (Defense) Act, 1939, printed as amended up to and including March 9, 1940.*

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ister these controls had to be improvised in large part. The task of providing the armed forces with the necessary equipment and supplies was in the hands of the Air Ministry, the Admiralty and the Ministry of Supply. The decision to create a Ministry of Supply had been taken in April 1939, but it had not been effectively established until the following August. In addition to supplying the Army, it was to make sure that industry was provided with adequate stocks of raw materials. A newly created Ministry of Food was given the same powers with respect to foodstuffs. A Ministry of Shipping was set up to direct Britain's merchant fleet and charter foreign ships, while the Board of Trade retained general jurisdiction over commerce and industry.

Unfortunately, there was no effective coordination of the work of all these departments. Since the Admiralty and Air Ministry each retained control over contracts for the Air Force and Navy, the Ministry of Supply could not work out a system of joint procurement for all the armed forces and develop a program for the expansion of production to meet these needs. In theory, a Cabinet committee, under the chairmanship of the Chancellor of the Exchequer, was supposed to review and coordinate economic and financial policy. This committee was in turn advised by a body called the Economic Survey, consisting of Lord Stamp as chairman and a number of economists as members. Final decisions on matters of priority were entrusted to a ministerial Committee on Priority Questions, which in turn appointed a number of sub-committees to deal with labor, production capacity, transport and materials.³ In practice this system could not overcome conflicts of jurisdiction or prevent departments from working at cross purposes. There was no strong personality who could impose unified direction and provide the organization with driving force and energy.

Both the Ministry of Supply and the Air Ministry appeared to leave the main work of production and development to private enterprise.⁴ Actually, private enterprise proved in some measure reluctant to depart from "normal business" and vigorously adjust production to wartime needs. The Ministry of Supply was itself not sufficiently energetic in securing the utilization of all available capacity. In September 1939, for example, it announced its intention to create thirteen regional boards for the primary purpose of bringing into production the entire engineering capacity of smaller industrial establishments in every area.

Not until March 1940, however, did these boards begin to function.⁵

Under these conditions, production "bottlenecks" developed in many cases. The manufacture of aircraft lagged seriously, owing to a shortage of skilled machinists and an insufficient quantity of machine tools. Although the capacity of the British machine-tool industry was much larger than in 1914, it proved unable to cope with the rapidly expanding needs of the armament industries. Tool and machine shops were greatly handicapped by the fact that highly skilled men were "being enticed away by offers of abnormal remuneration in less skilled jobs."⁶ In response to criticism voiced in Parliament during March and April, the Minister of Supply reported that the country was being "scoured" for every available machine tool and that provision had been made for an Anglo-French exchange of such tools. He did not indicate that the government had taken adequate steps to expand the basis of the industry in order to meet the growing requirements.⁷

Another factor responsible for the disappointing war output was the failure in some cases to insure a continuous supply of raw materials. The Ministry of Supply had complete control over such materials. It could buy and sell on its own account and regulate the sale, prices and use of virtually all important commodities except foodstuffs. It became virtually the sole buyer of copper, lead, zinc, tungsten, pyrites, sulphur, phosphate rock, flax, wool, timber, woodpulp, etc. Some seventeen Controllers were named to supervise the distribution of specified raw materials or groups of products.⁸ In most cases the Controllers fixed maximum wholesale prices for the raw materials and semi-manufactured goods in their jurisdiction. The extent to which they interfered with normal distribution varied considerably.⁹

Despite the difficulties inherent in their tasks, the Controllers functioned with a fair degree of efficiency. They lacked experience with price control, however, and sometimes did not possess the information on employment and distribution of materials which was an essential prerequisite for

5. Cf. Ministry of Supply, *Press Release*, March 14, 1940.

6. Report of a Parliamentary committee, quoted in *The New York Times*, April 27, 1940.

7. *The Economist* (London), April 13, 1940, p. 704.

8. For a list, cf. Great Britain, *Parliamentary Debates*, House of Lords, January 16, 1940.

9. The wool requirements for clothing of the armed forces were so vast that distribution had to be strictly controlled at the expense of exports and domestic consumption. And the drastic curtailment of Scandinavian and Baltic supplies of timber required stringent rationing, and a reduction in paper deliveries of at least 40 per cent in February and 70 per cent in April 1940. The orders of the Controllers have been summarized currently in the *Board of Trade Journal* (London).

3. For a description of this machinery, cf. Max Nicolson, "How Britain's Resources are Mobilized," *Oxford Pamphlets on World Affairs*, No. 40, 1940.

4. *Ibid.*, pp. 7-8.

intelligent decision. In contrast to the practice in the last war, most of the Controllers were chosen from the ranks of the business men in the branch which was to be controlled. Such men, although endowed with practical experience, tended to have an unconscious bias in favor of their own businesses and were, above all, sometimes disinclined to introduce drastic changes in the distribution and utilization of materials at the expense of earning power or fixed habits of production.¹⁰ In many cases the Ministry of Supply was tardy in introducing definite scales of priority. Not until February 19, 1940 was the Cotton Controller authorized to issue directions requiring producers and distributors in the cotton industry to give preference to the production and delivery of goods which they had agreed to furnish under government contracts and for other approved purposes, such as exports.¹¹ Although purchases of iron and steel other than that needed to fill government orders were licensed at the beginning of the war, this control was insufficient to prevent a serious shortage. A real system of priority, designed to discriminate among the many competitive demands of official and unofficial buyers, was not established before April 1, 1940.¹² The supply of aluminum, so vital to the aircraft industry, offered another difficult problem. In 1939 Britain was able to produce only 30,000 long tons of this metal, as against an approximate consumption of 75,000 tons.¹³ In March the Ministry of Supply announced that it had bought the entire output of the United Kingdom, and the export surplus of the Canadian aluminum industries for 1940 and 1941. Steps were also taken to increase the capacity of the Canadian industry.¹⁴

Deficiencies in home production had to be covered as far as possible abroad. Aluminum was bought in Norway and Switzerland, as well as Canada, and substantial quantities of steel in Belgium. With Norway and Belgium cut off, the United States remained the only great neutral source of supplies. The Anglo-French purchasing program in the United States appears to have been slow in getting under way. In part this was attributable to circumstances over which the Allies had no control, such as the retention of the American embargo on arms exports for the first two months of the war, and certain bottlenecks in American industry. Yet the conservative policies

of the British Treasury were apparently also responsible for the limitations of the program. Although Britain's foreign assets in the form of securities, bank balances, gold and direct investments were very large, the Treasury doled out foreign exchange sparingly. In the last few months, however, the purse strings were loosened, and by June 22 the Anglo-French Purchasing Board had placed contracts in the United States valued at about \$1,700,000,000, of which approximately \$1,200,000,000 was for airplanes and parts. According to a spokesman of the Board, France and Britain had ordered the equivalent of over 10,000 planes during the past eighteen months, and approximately 2,500 of these had been delivered.

UTILIZATION OF LABOR

Reluctance to disturb peace-time patterns of production was evident in the British government's labor policy as well as its industrial program. Productive man power was not commandeered and distributed by the state, as it had been in Germany before the war and in France since general mobilization. True, a comprehensive schedule of "reserved occupations" was established in essential industries, the workers of which, above certain specified age limits, could not be conscripted for military service.¹⁵⁻¹⁷ Yet the government devoted surprisingly little attention to the problem of securing labor for its productive effort. Until a limited census of the personnel in war industries was taken in April 1940, even the number employed in such pursuits was not accurately known.¹⁸ For many months the official Labour Exchanges were lax in combing the ranks of the unemployed for men peculiarly qualified for skilled or unusual work. Haphazard private attempts to secure labor inevitably caused misplacement and inefficiency. The Control of Employment Act of September 15, 1939, which gives the Minister of Labour broad power to prevent the "enticement" of key workers from their posts by offers of higher wages elsewhere, was not put into operation except in one minor case. As a result, men were apparently drawn away from important positions.¹⁹

Relatively little was done, moreover, to increase the supply of labor available for industrial occupations. The government attempted to keep overtime work at a minimum.²⁰ Powerful trade unions,

10. "The Controllers," *The Economist*, February 17, 1940.

11. *Board of Trade Journal*, February 22, 1940, pp. 201-202.

12. Cf. *The Economist*, April 13, 1940, p. 689; also *The Statist*, March 23, 1940, p. 302.

13. *The Economist*, February 3, 1940, p. 219.

14. *The Times*, March 12, 1940. According to *The Economist* (February 3, 1940, p. 219), Canada can export more than 50,000 tons of aluminum.

15-17. Great Britain, Ministry of Labour and National Service, *Schedule of Reserved Occupations* (Revision, May 1940: London, 1940).

18. *The Times*, April 2, 1940.

19. "Putting Men To Work," *The Economist*, April 13, 1940; *The Times*, April 27, 1940.

20. Cf. U.S. Department of Labor, *Monthly Labor Review* (Washington), April 1940, p. 864; January 1940, p. 55.

especially in the machine industries, opposed "dilution" of their ranks by employment of less highly skilled men and women. Recruitment of additional labor was slow. Despite an acute and recognized shortage of expert craftsmen, government training centers were teaching less than 8,000 pupils in the spring of 1940, and the instruction of semi-skilled machine operators had been left almost entirely to individual employers.²¹

Organized labor was reluctant to shoulder sacrifices or make additional efforts as long as the government had not expanded output sufficiently to absorb Britain's unemployed.²² The number of registered jobless actually rose from 1,232,000 in mid-August 1939 to 1,519,000 on January 15, 1940. After February there was a sharp decline to 973,000 in mid-April;²³ but since several hundred thousand men had been incorporated in the armed forces, the number of employed workers still remained smaller than it had been before the war. At the same time, a shortage of skilled man power was appearing in many vital industries.

The Churchill government, which took office in May, immediately took energetic action to remedy most of these deficiencies. Arthur Greenwood, a Labor leader, was made an over-all economic coordinator. He became chairman of a new Production Council which assumed general direction of economic organization and insured priority of production for war purposes. Greenwood also took charge of the Economic Policy Committee of the Cabinet which concerted and determined economic policy as a whole.²⁴ Under the Emergency Powers Defense Bill enacted on May 22, 1940, the government issued an Order-in-Council on May 25 authorizing the Ministry of Supply to designate as "controlled undertakings" all enterprises of actual or potential value in turning out implements of war. Such concerns were then completely subject to the orders of the government which could prescribe their tasks, hours of work, the labor to be employed, and the prices of the products.²⁵ The new Minister of Labor, drawn from the ranks of labor union officials, assumed responsibility for the recruitment of labor and the determination of conditions of work. He established a national Labor Supply Board, as well as a labor supply committee, in all important local areas. A large number of Inspectors of Labor Supply were appointed

to insure the most advantageous employment of skilled workers, and training facilities for labor were expanded.²⁶ Through a series of orders announced on June 5 the Minister of Labor also outlawed strikes and lockouts by decreeing compulsory arbitration of all labor disputes, and prohibited the employment of miners and agricultural workers in other trades.²⁷ War industries were placed on a seven-day week schedule; and by cutting the production of certain items for civilian consumption, new workers were made available for war tasks.

On June 8 Lord Beaverbrook claimed that the output of new aircraft had increased 62 per cent since May 11, while the manufacture of airplane engines had risen 33 per cent.²⁸ On June 27 the Minister of Supply announced that the output of cruiser and infantry tanks had expanded by 115 per cent since April and that of various types of artillery by 50 to 228 per cent.²⁹ Without knowledge of the base production, it is impossible to translate these percentages into concrete terms.

FOOD PRODUCTION AND DISTRIBUTION

Aside from the problem of industrial production the government faced a particularly difficult task in supplying the population with foodstuffs. Although home production of meat, vegetables, butter, cheese and eggs had grown, the total arable acreage in 1938—11,861,000 acres—was over 2,400,000 less than in 1914.³⁰ When the European war broke out, approximately 65 per cent of Britain's foodstuffs were imported, including 93 per cent of the country's supply of fats, 86 per cent of its flour, 77 per cent of its fruit, 74 per cent of its sugar, 51 per cent of its meat and 40 per cent of its eggs.³¹ In addition, almost half the feed and forage (excluding green pasturage) consumed by British livestock came from overseas.

Although the government accumulated pre-war stocks of some necessary raw materials under the Essential Commodities Reserves Act of July 29,

26. *Ibid.*, May 27, 1940; also "Men, Machines, and Money," cited.

27. *The Economist*, June 8, 1940, p. 1002. In addition, the government established more complete control over labor supply by forbidding employers in the engineering and building industries to hire workers except through the employment exchanges or by arrangement with trade unions.

28. *The New York Times*, June 9, 1940. On July 7 he announced that British plane production in June 1940 was double the June 1939 figure.

29. *Ibid.*, June 28, 1940.

30. For statistical data, cf. H. L. Franklin, "British Food Control," *Foreign Agriculture* (Washington), December 1939, pp. 571-75.

31. Cf. *The Agricultural Register, 1938-1939* (Oxford, Agricultural Economics Research Institute, 1939); *The Economist*, August 19, 1939, p. 374.

21. "Training War Workers," *ibid.*, May 18, 1940, p. 893.

22. Cf. *New Statesman and Nation*, February 3, 1940, pp. 126-27.

23. Cf. Ministry of Labor figures, *The Economist*, May 11, 1940, pp. 872-80.

24. Cf. statement by Clement Attlee in the House of Commons on June 5, 1940, *The Times*, June 5, 1940; also "Men, Machines and Money," *The Economist*, June 8, 1940.

25. Cf. *The Times*, May 26, 1940.

1938, it did little, aside from purchasing wheat, to increase stores of food. Mr. W. S. Morrison revealed in the House of Commons on November 1, 1939 that no reserves of perishable foodstuffs, such as butter and bacon, had been accumulated; and the failure to stock fodder led to a dangerous shortage in the winter of 1939-40, with serious effects on British animal husbandry.³² Thus even a temporary interruption of shipping services, which bring 50,000 tons of foodstuffs to Britain each day, would threaten disaster.

The Ministry of Agriculture launched an official drive to put into cultivation 2,000,000 acres of old grassland in the United Kingdom. For this purpose a subsidy of £2 was paid for each acre plowed. By mid-April 1940 a total of 1,897,171 acres had actually been turned by day and night efforts and with the help of an estimated 60,000 tractors.³³ The cultivation of garden plots by town workers was also encouraged. Farm operations were hampered, however, by the unusually severe winter, as well as a shortage of labor, tractors and other farm implements. Additional problems were raised by the lack of sufficient seed and fertilizer. The labor deficiency was somewhat reduced by the efforts of the Women's Land Army, youths and casual labor groups; and in May 1940 by the Churchill government's action in raising agricultural wages and forbidding rural workers to leave the land.³⁴

The importation and distribution of food products was entrusted to the Ministry of Food. This Ministry has fixed maximum prices for most important items at levels sufficiently high to insure good returns to farmers.³⁵ Although the government tried to stabilize food prices after December 1, 1939, particularly for meat and bread, by a subsidy costing over £1,000,000 per week, the cost of many food items rose sharply.³⁶ A rationing scheme, designed to assure a fair distribution of existing stocks, did not come into effect until January 8, 1940, and then covered only butter, bacon and sugar.³⁷ The German invasion of Denmark

and the Netherlands sharply reduced available supplies. Nazi control of Europe, together with the shortage of fodder caused by inadequate shipping facilities, may cut the supply of bacon and eggs almost one-half below normal during the coming winter.³⁸

SHIPPING

Both food and industrial needs can be satisfied only if the sea lanes to Britain can be freely utilized. Britain's shipping facilities, easily adequate in time of peace, have been severely strained by heavy war purchases and demands for military transport. Actual war losses of British vessels were unofficially estimated at about 1,120,000 tons at the end of June 1940—not an unduly high total.^{38a} But the convoy system, which had to be used to protect shipping, has reduced the effective carrying capacity of the merchant marine by at least 25 per cent.³⁹

Within ten days of the outbreak of the war, the government took steps to direct the employment of shipping capacity. At first, the Marine Department of the Board of Trade administered a licensing system as the principal supervisory measure, but this soon gave way to more positive authority. On October 13, 1939 an independent Ministry of Shipping was set up to coordinate the activities of the merchant fleet under one head, with power to control freight rates. Early in December 1939 the requisitioning of tramp steamers was begun and gradually extended to cover all ocean-going tramps.⁴⁰ Deep-sea liners were similarly requisitioned on February 1, 1940. Shipbuilding, too, has been coordinated in the interest of greatest efficiency. On February 1, 1940 construction and repair of both merchant and naval vessels was placed under Admiralty supervision. Largely because of a shortage of craftsmen and the emphasis placed on naval building, the rate of output was said to have fallen from 2,000,000 to 750,000 gross tons per annum between September 1939 and February 1940. By speeding up production and standardizing design, the latter figure may possibly be

all free of bone; butter, 8 oz.; and sugar, 12 oz. Edible offals, canned and cooked meats, manufactured meat products and certain kinds of bacon were not rationed. *Ibid.*, p. 106. These rations were altered from time to time. Consumption of tea has been restricted to two ounces per week, restaurant menus were reduced, and the Minister of Food has announced that margarine and cooking fats were to be rationed. *New York Herald Tribune*, July 9, 1940.

38. "The New Farming Policy," *The Economist*, June 8, 1940. In a speech on June 2 (*The Times*, June 3, 1940) the Minister of Agriculture warned that the supply of fodder would be so short that farmers dependent on purchases of feed would have to curtail their livestock holdings by a third.

38a. Hanson Baldwin, *The New York Times*, July 10, 1940.

39. *Manchester Guardian Weekly*, May 17, 1940, p. 385.

40. *The Economist*, January 13, 1940, p. 52.

32. Cf. *The Economist*, February 3, 1940, p. 197.

33. *The Second Great War* (London, The Amalgamated Press), April 22, 1940, pp. 538-45; *The Times*, April 18, 1940.

34. *The Times*, June 6, 1940.

35. The Ministry is the sole buyer of all fat stock and the sole distributor of meat to the civilian population. Cf. statement of Neville Chamberlain, *The Times*, February 29, 1940.

36. While flour, bread and tea cost the British consumer but little more on April 1, 1940 than seven months earlier, and fresh eggs were actually 6 per cent lower in price, sugar was up 49 per cent, potatoes 22 per cent, salt butter 23 per cent, and various meats from 10 to 34 per cent. *Ministry of Labour Gazette*, April 1940, p. 116.

37. By mid-April the weekly ration per person was as follows: meat (beef, mutton, lamb, veal), 1s. 10d. in value for individuals over 6 years of age, and 11 d. in value for those 6 years and under; bacon or ham, 8 oz. uncooked and 7 oz. cooked,

doubled.⁴¹ Arrangements were made, moreover, with Norwegian, Danish, Belgian and Netherlands shipping groups for placing under Allied supervision such vessels of these countries as had not fallen into German hands.⁴²

FOREIGN EXCHANGE CONTROL

Britain's reliance on imports made it especially imperative to mobilize the country's purchasing power abroad. Although British gold stocks and foreign investments were substantial at the beginning of the war,⁴³ there was no assurance that the struggle might not last for years or that the United States would lift its embargo on credits after Britain's foreign resources were exhausted. It was, therefore, incumbent on the British government to conserve assets abroad as far as it was compatible with the effective prosecution of the war, and to expand current foreign exchange income from exports.

The first measures along this line provided for sweeping control of foreign trade and regulation of most foreign exchange transactions. The importation of a large number of luxury and semi-luxury products was prohibited, and other imports subjected to license. The saving effected in this way had to be offset partially by an embargo on the exportation of essential war goods. On September 3, 1939 the government instituted a partial control over foreign exchange dealings. The export of capital was prohibited, and foreign exchange could be obtained only from authorized dealers, who in turn were to secure it from the Bank of England. Private gold holdings and current foreign exchange income had to be surrendered to the Treasury. The pound sterling was pegged in relation to ten major world currencies.⁴⁴ The sterling-dollar rate, for example, was fixed at \$4.035. In order to maintain Britain's financial standing, the government permitted the free liquidation of sterling balances and British investments owned by non-residents. Such sales of ster-

ling, however, could not take place at the official rate, but only at whatever price they could bring in the free market. The supply of this "free" sterling was further increased by the official practice of allowing the importation of goods invoiced, and therefore payable, in sterling. In addition, a certain amount of capital was illegally exported, particularly via other parts of the British Empire which had less strict foreign exchange regulations.⁴⁵ The "free" sterling reaching the market in this way could be used for the payment of British exports, thus depriving the British government of considerable foreign exchange income.

Gradually the Treasury took measures to restrict the free sterling market. The provisions guarding against the illicit export of capital were tightened; and from the beginning of December 1939 the authorities began to reduce the number of permits for imports of goods payable in sterling which could be sold in the free market. Moreover, the demand for free sterling was curtailed by a new regulation, effective March 25, 1940, which required that British Empire exports of whiskey, furs, tin, rubber, jute and jute manufactures should henceforth be paid either in pounds acquired at the official rate, or in designated foreign currencies.⁴⁶ The gradual extension of exchange clearing agreements also cut into the supply of, and demand for, free sterling. Bilateral clearing accords were concluded or renewed with Norway, Spain, Sweden, Argentina, Uruguay, Turkey and a few other countries. In general these agreements enabled Britain to buy goods without the expenditure of foreign exchange and compelled the other countries to use their sterling assets only for purchases in the sterling area.⁴⁷ Of even greater importance was the Anglo-French agreement, reached early in December 1939, to postpone the settlement of all sterling-franc balances until after the war.⁴⁸

41. *The Times*, March 21, 1940; *The Economist*, February 3, 1940, p. 196.

42. For a survey of the British shipping situation, cf. "Shipping in War," *The Economist*, May 25, 1940, pp. 937-38; June 1, 1940, pp. 978-79.

43. The United Kingdom had about \$4,230,000,000 available in gold and readily negotiable American securities, as well as considerable direct investments and holdings of foreign sterling loans which could not be liquidated so easily. Cf. *Federal Reserve Bulletin*, December 1939, pp. 1042-43.

44. U.S. dollars, Netherlands guilders, Dutch East Indies guilders, Swiss francs, belgas, Canadian dollars, French francs, Swedish kronor, Norwegian kroner, and Argentine pesos. Cf. Imre de Vegh, "How Allied Policies Affect Our Trade: Sources of Supply and Demand in Official Sterling Market Estimated," *Barron's*, May 13, 1940. For a summary of British foreign exchange control, cf. "Sterling under Control: An Outline of Regulations," *The Analyst*, April 25, 1940.

45. Cf. "The Free Market in Sterling," *The Economist*, February 24, 1940.

46. This regulation affected exports to North and South America other than Canada, Argentina and Uruguay, and to Belgium, Holland and Switzerland. Cf. "Free and Controlled Pounds," *The Economist*, April 6, 1940.

47. Cf. *Federal Reserve Bulletin*, May 1940, p. 382.

48. Cf. *The Economist*, December 16, 1939, p. 403. Limitations of space preclude a thorough survey of the interesting experiments in Anglo-French economic collaboration adopted by the Allied governments. After a meeting of the Supreme War Council on November 17, 1939, a series of intergovernmental committees was established to coordinate Allied efforts in the fields of aviation, munitions and raw materials, oil, food supply, shipping, and economic warfare, while others dealt with coal, timber, wood pulp and other commodities. Priorities were fixed by an Anglo-French committee of coordination under the chairmanship of M. Jean Monnet. On December 4 a financial accord stabilized the franc-sterling ratio and guaranteed the convertibility of each currency in terms of the other; established the principle of a common financial front toward the rest of the

Although these steps, together with a gradual decline in the liquidation of foreign balances in London, greatly reduced the importance of the free sterling market,⁴⁹ they did not prevent a sharp drop in the price of free pounds, which the outside world mistook as a sign of real weakness. Not until June 7, 1940 could the Treasury be persuaded to abolish the free sterling market almost altogether. New regulations issued on this date required that exports from the United Kingdom to the United States and Switzerland be paid either in sterling obtained at the official rates from the Exchange Control or in dollars and Swiss francs. Having cut into the demand for free sterling, the Treasury also closed one of the last sources of supply by suspending licenses permitting residents outside the sterling-franc area to sell securities in the United Kingdom.⁵⁰ Previously, the invasion of Scandinavia and the Low Countries had already terminated the repatriation of large foreign balances in London and sizeable holdings of British securities.

British holdings of foreign securities have been mobilized step by step, in order to acquire additional purchasing power abroad. The sale and transfer of such securities to non-residents was forbidden except with the consent of the Treasury, which received power to requisition them at any time against payment in sterling. To obtain Canadian exchange the Treasury first requisitioned about £28,000,000 in holdings of the Canadian 3½ per cent sterling loan of 1930-50, which the Canadian government stood ready to redeem in advance of maturity.⁵¹ In February 1940 investments in 60 American securities had to be surrendered, and in April holdings of 117 more dollar stocks were requisitioned. The last two orders probably netted between £75,000,000 and £90,000,000 in foreign exchange.⁵²

Although the government preferred to meet the cost of imports as far as possible from the proceeds

of exports, it proved difficult to expand foreign sales. During the first eight months of the war the import surplus rose to about £380,000,000,⁵³ as compared with only £238,000,000 in the same period the year before. While the value of imports rose steadily, exports did not recover from the shock of war until December 1939, and thereafter failed to rise above the average level of the previous year despite an increase in prices. Re-exports continued to lag. Foreign sales suffered from the absorption of domestic industry in arms production and the failure to insure the export trade priority over the domestic market in the allocation of raw materials.

On February 1, 1940 the government announced formation of an Export Council recruited from leading civil servants and representatives of industry, labor, commerce and finance. This Council, headed by Sir Andrew Duncan, President of the Board of Trade, announced its intention to create machinery dealing "with the allocation of raw materials for export orders under plans worked out with the Ministry of Supply and the appropriate Controllers."⁵⁴ In order to make goods available for export, the Board of Trade issued an order on April 16 curtailing the distribution of cotton and rayon piece-goods to home retailers by 25 per cent, and that of linens by 75 per cent.⁵⁵ By the end of May 1940 the Export Council had also organized 120 groups in various branches of industry for the purpose of working out an export campaign plan.⁵⁶ This whole organization was just getting under way when the outbreak of "total war" prejudiced its chances of success.

INTERNAL FINANCE

The dimensions of Britain's entire effort have been reflected in the budget. For the fiscal year beginning April 1, 1939 the government had originally contemplated an expenditure of £1,314,944,000 (approximately \$5,259,776,000)—an amount almost half again as large as the 1937-38 budget. By August 1939 the acceleration of war preparations had increased the 1939-40 estimates to £1,453,341,000, of which £749,004,000 was for national de-

world; and provided for the sharing of certain joint war expenses in the ratio of 3 for Britain to 2 for France. A general trading agreement between the two countries was announced on February 17, 1940, which simplified formalities and relaxed many war restrictions on imports from one to the other. Numerous subsidiary arrangements were made for collaboration between industrialists, labor organizations, parliamentarians and cultural organizations. In some spheres of policy—notably in shipping, purchasing and finance—joint action appears to have been quite effective. But many of the extravagant claims of Anglo-French unity now seem to have been devoid of foundation.

49. By the beginning of April 1940, it was said that only 10 per cent of British trade with the United States and an even smaller portion of total British trade was conducted in free sterling. Cf. "Free and Controlled Pounds," cited.

50. *The New York Times*, June 8, 1940.

51. *Federal Reserve Bulletin*, December 1939, p. 1041.

52. *The Economist*, April 20, 1940, p. 736.

53. It may be argued that the deficit was not so large in reality, since import values include the freight cost which is now largely paid to British shipowners in sterling. On the other hand, British shipping now earns virtually no foreign exchange by carrying goods for foreigners; and Britain must pay high wartime freight rates for the ships of other countries which still carry British trade.

54. Cf. The White Paper on Aims and Plans of Work (Cmd. 6183), *The Times*, March 6, 1940.

55. *The Times*, April 17, 1940.

56. Cf. statement by Sir Andrew Duncan in the House of Commons, *The Times*, May 31, 1940.

fense.⁵⁷ After war broke out, Parliament immediately voted an additional war credit of £500,000,000, thus raising total expenditure for the year ending March 31, 1940 to £1,933,341,000 (about \$7,733,364,000). The actual amount spent fell £116,500,000 below the estimates. The 1940-41 budget, introduced in April, envisaged an expenditure of £2,667,000,000 (\$10,668,000,000), of which about £2,000,000,000 was to be for the direct prosecution of the war.⁵⁸ On July 9 an additional £1,000,000,000 appropriation for the armed services was approved by the House of Commons.^{58a}

The task of raising the needed sums has been a complicated one. The government's fiscal policy had to be directed in such a way as to reduce civilian consumption and thus release production capacity and money for war purposes. It had to be correlated with the policy on wages, profits and prices. If income from wages and profits were permitted to expand, it might bring about either an undesirable increase in consumption at the expense of the output of war materials, or a sharp and disturbing rise in prices. Some control over income, consumption and prices was therefore necessary.

The war produced no drastic changes in the government's financial policy. The Chancellor of the Exchequer proceeded on the assumption that at least part of the additional expenditure should be covered by heavier taxes, which had the further advantage of curtailing civilian purchasing power. Income and inheritance taxes were raised to produce an additional revenue of £76,500,000 for the remainder of 1939-40 and £160,000,000 for the full year 1940-41. Business, too, had to shoulder an additional burden. The Armaments Profits Duty, introduced only a few months ago, was repealed in favor of a 60 per cent levy on all profits in excess of those earned during a specified base period.⁵⁹ The National Defense Contribution, an extra corporation tax of 5 per cent on net profits, was retained, but concerns were required to pay only one of the two taxes—either the National Defense Contribution or the Excess Profits Tax, whichever was higher.⁶⁰

Although the actual revenue for the fiscal year ended March 31, 1940 — £1,049,000,000 — exceeded expectations, it amounted to less than 58 per cent of total expenditures. With the cost of the war

steadily rising, it became necessary to exact further sacrifices from the taxpayer. The 1940-41 budget, therefore, brought further increases in the taxes on beer, spirits and tobacco, doubled the match duty, raised inland postal rates and telephone charges, and lowered the starting point for the imposition of the income surtax from £2,000 to £1,500. All these measures, together with those announced last September, were expected to increase government revenue by £195,202,000 to a total of £1,234,391,000, which still left a deficit of £1,433,000,000 for 1940-41.⁶¹ The government also proposed a purchase or sales tax, not immediately levied, on wholesale transactions in all goods except food, drink, tobacco, gasoline, oil and coal. Many critics still expressed the belief that the public was ready to shoulder much heavier burdens, and in particular that the large number of people with weekly incomes between £5 and £2 should no longer be permitted to escape with comparatively light taxation as in the past.⁶² Although the new Churchill government raised the Excess Profits Tax from 60 to 100 per cent,⁶³ it has so far been too preoccupied with immediate war problems to propose additional taxation.

Up to the present the government has been able to borrow enough money to cover its huge deficits without departing from orthodox methods. The gross national debt, which amounted to £8,522,000,000 at the outbreak of the war, rose to about £9,247,000,000 on June 1, 1940. A substantial part of this increase—about £379,200,000—was financed through the issue of short-term Treasury Bills, which were readily absorbed by banks and other institutions, but did not represent a real drain on the savings or living standards of the people. The government appealed to the small saver through a National Savings Campaign launched in November 1939. For this purpose it not only continued selling National Savings Certificates at an issue price of 15 shillings (about \$3), but devised a new 3 per cent Defense Bond in multiples of £5 (\$20) which was redeemable in seven years at a premium of 1 per cent. By May 27, 1940 the National Savings Campaign had succeeded in selling £86,028,000 in Savings Certificates and £79,548,000 in Defense Bonds.⁶⁴

The first long-term loan did not come until March 1940. The way had been prepared, however, as early as September 1939 when the Treasury was empowered to prohibit all capital issues except

57. "The Budget Proposals," *The Economist*, September 30, 1939.

58. Cf. the budget speech of Sir John Simon, *Parliamentary Debates*, April 23, 1940.

58a. *The New York Times*, July 10, 1940.

59. The base period is 1935, 1936, or the average of 1935-36 or 1936-37, at the option of the taxpayers.

60. For a review of these taxes, cf. "The Budget Proposals," cited.

61. "The Budget Accounts," *The Economist*, April 27, 1940.

62. Cf. "A Budget of Delusions," *The Economist*, April 27, 1940.

63. Statement of Sir Kingsley Wood in the House of Commons, *The Times*, May 30, 1940.

64. Cf. *The Economist*, June 8, 1940, p. 1024.

those it considered essential to national defense. In January-February 1940 the government also succeeded in converting most of the £350,000,000 4½ per cent loan due in 1940-44 to a new 2 per cent issue.⁶⁵ In March it was therefore possible to float a £300,000,000 loan carrying an interest rate of 3 per cent and maturing in 15 to 19 years. On June 21, 1940 the Chancellor of the Exchequer announced a new issue of seven-year bonds bearing 2½ per cent interest.⁶⁶

Although the government has experienced no great financial difficulties, many of its critics have contended that much more drastic measures will be required in the long run if the war continues. They contend that all classes, rich and poor alike, will have to curtail their living standards very severely. This could be done either by reducing money incomes, or by preventing people from spending part of their wages and salaries on current consumption. Actually the money incomes of the British people have risen since the outbreak of war. Not only has there been an increase in employment and a lengthening of working hours, but a considerable rise in wage rates has taken place. In contrast to France and Germany, Britain made no attempt to stabilize wages.⁶⁷

Demands for higher wages were usually justified by the mounting cost of living. By April 1940 the cost of living had risen 17 per cent, and wholesale prices 36 per cent, above pre-war levels. In a country so dependent on imports as Britain, the government could not, of course, have complete control over prices. Moreover, since the first World War the authorities had little or no experience with the complicated and difficult task of regulating prices. Through the Ministry of Supply and the Food Ministry, the government determined maximum prices for industrial raw materials and many foodstuffs which, however, have been raised repeatedly in order to meet the increased cost of imports and production. The Prices of Goods Act of October 1939 empowered the government to regulate the retail prices of a wide range of non-food items on the basis of prices prevailing on August 1, 1939. The Act was first applied to the cheaper kinds of clothing and household goods⁶⁸ on January 1, 1940, and extended to all clothing,

shoes and numerous other household necessities the following June.⁶⁹ It did not forbid, however, such price increases as could be attributed to a genuine rise in the cost of production or selling. Moreover, the machinery for the investigation and prosecution of violations was quite cumbersome.

The simultaneous rise in wages and prices created several dangers. If continued, it threatened a disturbing inflation. The insistence of the labor unions on compensating wage increases reflected an erroneous belief that the war could be won without lowering the living standards of the masses. Many economists pointed out that the rich alone could not pay for the war, even if all incomes above £500 per year were confiscated.⁷⁰ On the other hand, wage-earners with an annual income of £260 or less accounted for more than 60 per cent of the net total of all personal incomes and for about two-thirds of the current consumption.⁷¹ If retail sales are any indication, the mass of the people had not yet sufficiently reduced their living standards by the spring of 1940.⁷² Under the circumstances too little of Britain's national income was being saved and too much of the nation's economic effort still devoted to the satisfaction of civilian needs rather than the production of war materials.

It remains to be seen how the Churchill Cabinet will meet this situation. The Board of Trade has already followed up its original order restricting the supply of cotton, rayon and linen products with another measure which curtails the distribution of a wide range of civilian goods for the period June 6-November 30 to two-thirds of the value distributed in the corresponding months of the preceding year.⁷³ As a counterpart to the confiscation of war profits and the heavy taxation of high incomes, the government may impose a curb on further wage increases. Additional taxation of the masses, however, is difficult and unpopular, because most of the people already have an extremely low standard of living. The most comprehensive plan for solving this dilemma has been worked out by the well-known economist, John Maynard Keynes. Under this scheme⁷⁴ all people with earn-

69. *The Economist*, May 18, 1940, p. 896.

70. John Maynard Keynes has calculated that even such a drastic measure would yield only £625 million. Cf. his book, *How to Pay for the War* (New York, Harcourt, Brace, 1940), p. 24.

71. *Ibid.*, pp. 25-26.

72. In March and April 1940 the daily value of retail sales averaged 7.6 per cent higher than in the corresponding months of the preceding year. Cf. *The Economist*, June 8, 1940, p. 1003.

73. The order covered many articles of clothing, household goods, ornaments, toilet preparations, toys, cameras, musical instruments and office appliances, all of which had an estimated retail sale of £250,000,000 in 1939. Cf. *The Times*, June 7, 1940.

74. *How to Pay for the War*, cited.

65. £245,000,000 were converted, and £105,000,000 paid in cash. Cf. the budget speech of Sir John Simon, *Parliamentary Debates*, April 23, 1940.

66. *The New York Times*, June 22, 1940.

67. During the first four months of the war about 4,750,000 workers were successful in agitating for wage increases amounting to approximately £830,000 a week; and in the first three months of 1940 further concessions, totaling £855,400 per week, had to be granted to 5,258,600 people. *The Statist*, January 27, 1940; also *Ministry of Labour Gazette*, April 1940, p. 118.

68. For a list, cf. *Board of Trade Journal*, December 21, 1939.

ings above an irreducible minimum would be compelled to save part of their incomes on a sharply progressive scale. Hitherto the plan has not aroused general approval; partly because it is so drastic, partly because it appears difficult to administer. Sooner or later, however, the government may be compelled to adopt its essential features.

THE FRENCH WAR ECONOMY

While Germany, after 1933, strained every nerve to prepare for war, France until November 1938 was gripped by economic depression aggravated by social strife and a resulting flight of capital to foreign countries. Only under the increasing influence of M. Paul Reynaud, French Finance Minister from November 1, 1938 to March 21, 1940 and Prime Minister thereafter, was the national output raised to meet potential war needs. M. Reynaud stimulated production by progressive modification of the 40-hour week law; improved France's international economic status by placing the franc on a stable basis; restored confidence by proclaiming his adherence to liberal economic principles; and ameliorated the chronic French financial crisis by retrenchment of civil expenditure, new taxation and other fiscal measures.⁷⁵ The results were encouraging. In the ten months between November 1938 and the outbreak of war, the index of industrial production (1928 base) was raised from 83 to 100, while other economic indicators showed marked improvement.⁷⁶

This recovery was in large part supported by rearmament expenditures. Simultaneously the government took specific steps to convert the nation's economy to a war footing. Not until July 11, 1938 had the French enacted basic legislation for mobilization of civilian man power and all material and financial resources in time of war.⁷⁷ A stream of decrees soon elaborated the sweeping provisions of this measure. The manufacture of munitions was intensified, to some extent at the expense of non-essential industries. A series of decrees issued March 20, 1939 raised the maximum weekly period of labor in defense enterprises to 60 hours; provided for government credits to such industries where necessary, up to a total of 650 million

francs; gave the armed services power to demand priority of execution for government orders; and set up a bureau of military production, in the ministry of national defense, to speed up and coordinate all phases of munitions work.⁷⁸ Heavier taxes were imposed on wages, commercial transactions and profits.⁷⁹ The government's firm direction over many phases of economic life was facilitated by its broad power to rule by decree, subject only to parliamentary approval—a power it has enjoyed since March 19, 1939.

While these preparations undoubtedly cushioned the impact of full mobilization on French business in September 1939, the life of the country was of necessity disorganized by the withdrawal of perhaps 6,000,000 men from their normal pursuits—a higher proportion of total man power than in any other belligerent state.⁸⁰ The index of industrial production dropped from 100 to 50 in September 1939. There were reports of friction, bureaucratic restraints, and lack of coordination among the multitude of government agencies which assumed new functions after the outbreak of hostilities.⁸¹ This development was inevitable under the system set up in the law of July 11, 1938 which, after allowing for the paramount demands of the armed services, distributed supervisory functions among a large number of Ministers and subordinate national and local control bodies. Administrative confusion persisted in the absence of centralized control. An economic council of Ministers was not established to direct the country's productive efforts until March 21, 1940—at the eleventh hour.⁸²

THE SHIFT TO WAR PRODUCTION

Although the ground had been cleared for economic mobilization by September 1939, much the greater part of the actual shift to military production remained to be accomplished. Military secrecy cloaked all but a few generalities concerning its progress. Before the conflict, plans had been made for the conversion of civilian industries to fill war orders and for the expansion of both private and state-owned military plants. The government, moreover, had actively encouraged the decentralization of war industries, to minimize the

75. For M. Reynaud's policies, cf. the collections of his principal public utterances: *Courage de la France* (Paris, Flammarion, 1939), and *Finances de Guerre* (Paris, Flammarion, 1940).

76. Cf. address of Paul Reynaud in Chamber of Deputies, *Le Temps* (Paris), December 15, 1939; U.S. Department of Commerce, *Economic Situation in France in 1939* (mimeographed, April 1940), pp. 2, 3, 5.

77. For text of law on the general organization of the nation for wartime, cf. *Journal Officiel de la République Française: Lois et Décrets*, July 13, 1938, pp. 8330-37.

78. *Ibid.*, March 21, 1939, pp. 3665-68.

79. For the labor measures, cf. Paul Pic, "La Législation ouvrière et la guerre," *Revue Politique et Parlementaire* (Paris), February 10, 1940, pp. 141-61; for the profits levy, cf. decree of July 29, 1939, *Journal Officiel*, July 30, 1939, pp. 9638-40; for the transaction tax, cf. *Journal Officiel*, April 22, 1939, p. 5213.

80. Probably more than a million men were soon released and sent back to work.

81. Cf. statement of M. L.-O. Frossard in Chamber of Deputies, December 13, 1939, *Le Temps*, December 15, 1939.

82. *Ibid.*, March 23, 1940.

dislocation caused by the loss of a single region or by its intensive bombardment from the air. To assure the continuance of this project, the Minister of National Defense assumed authority to veto projected plant installation or enlargement.⁸³

The immediate goal of industrial mobilization, in the broadest sense, was said to be practically complete by the end of January 1940. Twenty regional economic organizations under the Minister of Commerce supervised the industrial adjustments made in each area.⁸⁴ Since the output of non-military items had declined, the increase in French productive activity almost to the maxima of the summer of 1939 indicated that the flow of munitions had reached a high point. While this represented no mean achievement in view of the shortage of labor, there is no evidence that the necessary mass production techniques had been adopted on a large scale.⁸⁵ Lack of machine tools constituted a serious bottleneck. Intense efforts to procure them on short notice in the United States were not particularly successful. Non-essential civilian enterprises, moreover, were not directly compelled to cease operations, although they did find it even more difficult than defense industries to obtain adequate supplies of labor and raw materials from the complex bureaucratic organization.⁸⁶

With a total of only 302,400 state-assisted unemployed in August 1939, many of them unemployable, the country possessed no large trained labor reserve on which it could draw for the expansion of war production.⁸⁷ A number of measures had been taken before the war to husband the supply of key workers. A census of labor occupied in defense industries was compiled and plans were made to put requisition orders into effect so that, on mobilization, employees would assume their posts just as soldiers joined their regiments. By an order of the Minister of Labor on August 24, 1939, the entire personnel of war factories was requisitioned and directed to remain at work.⁸⁸ In addition, men of certain ages who had been mobilized were given special assignments (*affectations*

spéciales) by the military authorities for specific industrial tasks.⁸⁹ By the spring of 1940, about 1,250,000 workers were employed in munitions plants. Of this number, 750,000 to 800,000 had been requisitioned, while 450,000 were conscripts under special assignment.⁹⁰

To meet the insatiable demand for labor, the 60-hour week was legalized in industry, and the maximum length of the working day raised to 11 hours. Under emergency conditions, the 72-hour week and the 12-hour day were permitted.⁹¹ Increasingly rigorous efforts were made, moreover, to train and employ women in munitions and other factories wherever the nature of the work permitted, despite the admittedly undesirable social consequences. A decree of February 28, 1940 directed the employment of a certain proportion of female labor in a large number of offices and enterprises.⁹² By the end of March 1940 about 300,000 women were at work in war industries; in state-owned establishments, they constituted 29 per cent of the personnel.⁹³ Thousands of new workers were also being secured by technical training in both public and private institutions, which taught youths below military age as well as women.⁹⁴

The reduction of labor standards, which would have been fiercely resisted in peace time, was generally accepted as a patriotic duty by French labor. Purged of their Communist elements, French trade unions were given additional power when the government tightened labor discipline by replacing directly elected shop stewards with union delegates.⁹⁵ A strong movement arose for permanent continuance of wartime collaboration between labor, management and the state,⁹⁶ but it is difficult to determine whether this was firmly grounded.

RAW MATERIALS

Enjoying a relatively liberal economy and a sizeable reserve of gold and foreign exchange,

83. Decree-law of October 19, 1939, decrees of October 20, September 9, 1939. Texts in *Droit Social* (Paris), November-December 1939, pp. 373-74.

84. Decree of September 28, 1938, and order of November 30, 1939, *Droit Social*, November-December 1939, pp. 373-74; *Journal Officiel*, September 29, 1938, March 24, 1939.

85. *La conjoncture économique et financière* (Paris), February-March 1940, p. III. Official statistics are lacking, but in private sources it is estimated that the index of industrial production fell to 50 in September, then rose rapidly to 88 in December, 91 in January and 95 in February. *Ibid.*

86. *Le Temps*, March 24, April 7, 1940.

87. *Le Temps*, August 31, 1939, April 29, 1940.

88. *Ibid.*, September 2, 1939; Aurèle Gilbert, "La Mobilisation de la main-d'oeuvre," *Revue des questions de défense nationale* (Paris), March 1940, pp. 394-400.

89. Pic, "La Législation ouvrière et la guerre," cited, pp. 141-61. For a critique of the abuses of this system, cf. *Le Temps*, May 9, 1940.

90. Statement of M. Charles Pomaret, *Le Temps*, March 8, 29, 1940.

91. Decree of September 1, 1939, *Journal Officiel*, September 6, 1939, pp. 11158-59. Somewhat lower limits were set for women and children.

92. *Journal Officiel*, March 1, 1940, p. 1516.

93. *Le Temps*, March 31, April 2, 1940; *The Economist*, April 20, 1940, p. 720; *The Times*, April 20, 1940.

94. Cf. statement of M. Pomaret, *Le Temps*, March 8, 1940; Gilbert, "La Mobilisation de la main-d'oeuvre," cited, Part 2, *Revue des questions de défense nationale*, April 1940, pp. 569-70; *Economie française*, May 15, 1940, pp. 192-96.

95. Decree of November 10, 1939, *Journal Officiel*, November 16, 1939, pp. 13143-46.

96. Cf. radio addresses of Paul Reynaud, Léon Jouhaux and others, *Le Temps*, May 3, 1940.

France did not adopt extreme measures to heighten its self-sufficiency through production of synthetic materials. Wherever possible, the yield of French extractive industries was increased to the extent permitted by limited labor reserves. In every case where shortages might conceivably have occurred, regulatory measures were taken to conserve stocks. Exports were often greatly restricted or forbidden completely. Control over each resource or category of commodities was vested in one Minister; for example, the Minister of Public Works and Transports was responsible for the production, importation and distribution of iron and other ores, building stone, cement and brick, while the Minister of Supply was charged with the task of assuring the flow of foodstuffs for both civilian and military use.⁹⁷ Subject to priorities fixed by the government for military purposes, production and rationed distribution of such materials was directed by *groupements*, or combinations of producers and dealers under general official supervision.⁹⁸ Only if voluntary efforts to form such organizations failed did the government resort to compulsion. In general, the attempt was made to preserve liberal economic practices to the greatest extent compatible with the need for conservation of stocks and price stability.

Imports of basic commodities were reduced in the early months of the war, but by the spring of 1940 the most urgent needs were being covered in fairly satisfactory fashion as regular convoys came into operation on the main shipping routes. As a matter of policy, imports were in principle regulated and distributed with consideration, first for military needs, second for export industries, and only thereafter for civilian consumption at home. By cutting foreign purchases to the lowest possible levels, transport problems were reduced, the drain on France's gold stock was minimized, and labor and capital customarily employed for peace-time requirements were channeled into military enterprises. Foreign sources of supply were increasingly selected for political and strategic reasons, as well as with a view to the possibilities of barter trade so ably demonstrated by the Germans before the war. Under Anglo-French agreements for pooled purchasing, first preference was given to producers in the French and British empires and the sterling area, then to neutral countries in Europe as a means of increasing Allied political influence and

withholding supplies from Germany, third to overseas debtor countries which export to meet their obligations, or to countries able to extend credits to the Allies.⁹⁹ The European commercial and payment agreements made by France since September 1939 were invariably negotiated to fit in this framework. Trade pacts were concluded in close cooperation with the British.¹⁰⁰ Despite a considerable show of activity in this field, there were complaints that French commercial policy had not been carried out with sufficient energy or thoroughness.¹⁰¹

FRENCH AGRICULTURE AND CONSUMPTION

France is normally less dependent on imports of foodstuffs than either Germany or Britain. Mobilization of more than 3,000,000 peasants in the army, however, created an enormous void in the country's agricultural labor supply, particularly noticeable because the normal labor reserve of men now 50 to 60 years of age was so heavily depleted in the last conflict. Further inroads were made by the migration of rural workers to obtain employment in arms factories, where wages were often three times as high as they were on the farm. Large numbers of veterinaries and mechanics, moreover, were requisitioned for military purposes, as well as the country's best horses, tractors and supplies of forage.¹⁰² Consequently, autumn sowing of wheat in 1939 may have been as much as 50 per cent below normal. The crop was further reduced by bad winter weather. French markets were first flooded with livestock which could no longer be maintained on the farm, and then left with curtailed domestic supplies.¹⁰³

Prodded by powerful agricultural interests, the government took energetic steps to prevent a disastrous decline in food stocks. The export of agricultural necessities was curbed, and import duties were reduced or suspended on a variety of products, including meat, potatoes, horses, and unassembled farm machinery. Crop restrictions for wheat were abandoned for the duration of the war.¹⁰⁴ Farmers were not ordered to produce specified materials, but were officially encouraged to meet national needs by a network of agricul-

97. For general provisions, cf. law of July 11, 1938, *Journal Officiel*, July 13, 1938, p. 8335; for details, cf. decrees and orders collected in *Droit Social*, February 1940, pp. 49 ff., March 1940, pp. 74-75.

98. These groups are both national and regional in scope. Cf. *ibid.*; also Edmond Emmanuel, "L'Industrie française du chocolat," *Economie française*, May 1, 1940, pp. 185-88, for details concerning their powers and functions.

99. Cf. André Philip, "French Economy on a War Footing," *Foreign Affairs* (New York), April 1940, pp. 517 ff.

100. Cf. "La Guerre économique dans l'Europe du Sud-Est," *Bulletin Economique de la Banque Nationale Française du Commerce Extérieur* (Paris), January-March 1940, pp. 3-9, 12 ff.

101. Speech of M. Maulion in French Senate, *Le Temps*, February 24, 1940.

102. *Economie française*, February 15, 1940, p. 6.

103. *Ibid.*, March 1, 1940, pp. 87-89; *Manchester Guardian Weekly*, March 15, 1940, p. 219.

104. Decree of October 4, 1939, *Journal Officiel*, October 5, 1939, p. 12020; *Le Temps*, February 28, 1940.

tural committees, as well as by government subsidies and other assistance covering seed, fertilizer, mechanization and immigrant labor.¹⁰⁵

Particularly drastic measures were taken to meet the shortage of rural workers. The legal working week for hired hands was raised to 60 hours. On February 23, 1940 the government, utilizing its right of requisition, forbade all farmers and rural labor, including mechanics, to seek work in the towns.¹⁰⁶ The seven oldest mobilized classes were released from service or given lengthy furloughs, and soldiers were detailed for farm labor, until the great battles of May 1940 began.¹⁰⁷ Arrangements were made for the gradual importation of 500,000 laborers from colonial areas as distant as Indo-China, while Spanish and German refugees were given rural employment.¹⁰⁸ These steps by no means sufficed to restore the French agricultural balance.

As Finance Minister and later Premier, M. Reynaud had on numerous occasions urged France to "produce more, save more, consume less" in order to win the economic war. Yet, six months after the conflict began, he was forced to admit that, aside from munitions output, production was still below pre-war levels, while consumption, taking into account the increased demands of the armed forces, had not declined.¹⁰⁹ Since France was living off accumulated stocks and its reserve of foreign exchange, restrictive measures were obviously needed. Until the spring of 1940, however, relatively little had been done to control consumption. Spokesmen for rural interests felt that severe rationing and price measures would reduce farm income, while many others could see no reason for unnecessary inconvenience and discomfort so long as the war remained in a quiescent stage.

Under the circumstances and despite official controls, prices in France rose more sharply than in the first months of the last war, although actual shortages of articles of common consumption were rare.¹¹⁰ According to unofficial estimates, wholesale prices of both foodstuffs and raw materials

in mid-April 1940 were 39 per cent above those effective in August 1939.¹¹¹ Because of laws stabilizing rents and the relatively steady wholesale quotations for such staples as wheat, mutton, sugar and eggs, however, the cost of living was only about 15 per cent higher than in August 1939.¹¹²

Measures to conserve supplies, especially of foodstuffs, were gradually adopted, culminating in a series of decrees issued February 29, 1940. The methods employed were indirect: for example, the quality of wheat flour was lowered; bread loaves were standardized; butcher shops were closed on three consecutive days each week; to save sugar, the sale of pastry and candy was forbidden three days in every seven; and the quantity and variety of food served in restaurants were somewhat restricted.¹¹³ Such steps did not drastically curtail consumption. Yet the use of ration cards for bread — the first food to be universally rationed — was not scheduled to begin until the end of May 1940.¹¹⁴ Stringent limitations on the purchase of other essentials, such as coal and gasoline, were likewise delayed until the spring of that year.¹¹⁵ Thus France remained a land of plenty to the last, at least when compared with Germany. Luxury and non-essential industries continued to operate, despite shortages of labor and materials.¹¹⁶

FOREIGN EXCHANGE AND FOREIGN TRADE

Outstripped by Germany in productive capacity, France planned to redress the balance by using its gold and other assets convertible into foreign currencies for purchases abroad.¹¹⁷ Between November 1938 and January 1940 about 60 billion francs of funds which had sought refuge abroad were repatriated, providing a constant stream of new foreign exchange resources. Since a long war was anticipated and credits were not available in the United States, the French hoped to utilize their assets as sparingly as possible. For this purpose, they placed foreign financial dealings under official control, curtailed imports and assisted exporters.

110. *Economie française*, February 15, 1940, p. 113.

111. *Ibid.*, May 1, 1940, p. 189; April 15, 1940, p. 163.

112. *La Conjoncture économique et financière*, February-March 1940, Graphique No. 31. Employees working more than 40 hours per week received additional pay which compensated at least partially for this increase.

113. *Journal Officiel*, March 1, 1940, pp. 1510 ff.

114. *Le Temps*, April 20, May 24, 1940.

115. Decrees of September 20, 1939, February 28, 1940, René Sédillot, "Les restrictions à l'ordre du jour," *L'Europe Nouvelle* (Paris), February 24, 1940, pp. 213-15.

116. *Economie française*, April 15, 1940, pp. 163-66.

117. At the end of August 1939 the gold reserve of the Bank of France was valued at \$2,714,000,000, while perhaps \$300,000,000 more was contained in the government's exchange stabilization fund. French investments and balances of various types in the United States were estimated at \$580,000,000. *Federal Reserve Bulletin*, December 1939, pp. 1042, 1134.

105. Cf. N. William Hazen, "French Wartime Control of Agriculture," *Foreign Agriculture* (Washington), January 1940, pp. 31 ff.; text of radio address of Paul Reynaud, February 29, 1940, *Le Temps*, March 2, 1940.

106. Decree of February 23, 1940, *Journal Officiel*, February 27, 1940, p. 1440. They were not, however, prevented from moving from place to place in agricultural areas. Cf. *Economie française*, March 1, 1940, p. 89.

107. *Le Temps*, February 2, 26, 28, April 26, 1940. All leaves were cancelled when the Germans invaded the Low Countries and France.

108. International Labor Office, *Industrial and Labour Information* (Geneva), January 22, 1940, pp. 62-64; statements of M. Queuille, former Minister of Agriculture, *Le Temps*, March 8, 29, 1940.

109. Speech of Premier Reynaud, February 29, 1940, *Le Temps*, March 2, 1940.

The supervision of exchange operations, which the French had steadfastly avoided in the pre-war period, was put into effect by decree of September 9, 1939. Gold and foreign balances owned in France were not immediately requisitioned, although a declaration to the authorities was required of these holdings and other foreign assets such as securities held abroad.¹¹⁸ Not until after the German invasion, on May 20, 1940, was provision made for the mobilization of dollar notes and securities, as well as gold held by private corporations.¹¹⁹ Originally, the principal measure of exchange control was a blanket prohibition on the export of gold or capital in any form except by official authorization. In a series of decrees and orders, the regulations were gradually tightened, and loopholes eliminated.¹²⁰ An Exchange Bureau, operated by the Bank of France in behalf of the government, controlled foreign financial transactions. The new administrative machinery did not at first function without friction and congestion, but, with greater experience, the difficulties were apparently being overcome.¹²¹

French foreign trade was also regimented in order to conserve French purchasing power abroad and satisfy the nation's essential requirements. Both imports and exports were subject to the most stringent official control. The former were forbidden without the approval of the Minister of Commerce and other authorities, who issued import permits only where national advantage was anticipated.¹²² Although exports of certain raw materials and vital commodities were prohibited, every effort was made to keep shipments of national specialties at the highest possible level consistent with war production.¹²³ Competitive costs were lowered by depreciation of the franc, general price control measures and the remission of duties or taxes collected in France on materials used for export manufacture.¹²⁴ Government policy thus aided exports, but its effect was partly offset by bureaucratic red tape and by lack of labor, foreign

and domestic raw materials and shipping facilities.¹²⁵ Shipments dropped very sharply in the first two months of the war, but then rose slowly.¹²⁶

FRENCH PUBLIC FINANCE

Prosecution of the war imposed a heavy burden on the French Treasury, which had long suffered from chronic budgetary deficits. Extraordinary war needs in 1939 raised government expenditures for that year to 186 billion francs, while revenues amounted to only 63 billions.¹²⁷ In 1940 the government planned to spend 79.9 billion francs for civil purposes, including family allowances for mobilized men. War costs were voted in quarterly instalments of approximately 55 billion francs each. Theoretically the government sought to keep the fiscal situation under control by "closing the circuit of capital"—that is, by recovering in the form of taxes and loans the funds paid out by the Treasury and thus preventing increased expenditure on civilian consumption.

To avoid runaway prices and restrict purchasing power, financial controls were freely utilized. The principle of price stabilization was immediately adopted, and beginning May 1, 1940 the National Committee for Price Supervision, which had passed on applications for increases, actually froze all prices for three months, with limited exceptions for imported products.¹²⁸ While prices at first rose rapidly, wage rates—although not total wage payments—were quickly stabilized. Collective bargaining agreements in force September 1, 1939 were retained, subject to modification by the government. Employees received only normal hourly pay for overtime work up to 60 hours per week. Partly as a social measure, employers retained 40 per cent of the sum earned for work above the legal weekly level (usually 40 hours) and deposited it in the *Fonds National de Solidarité* for payment to needy families of soldiers with the colors. In addition, a complicated series of taxes imposed a heavy cumulative burden on all incomes.¹²⁹ The government also recovered excess profits, except those arising from exports, on a sliding scale limiting profits to not more than 4 per cent of turnover.¹³⁰

118. *Journal Officiel*, September 17, 1939, p. 11535.

119. *Ibid.*, May 21, 1940, pp. 3774-75. As a preparatory measure, the disposal of foreign exchange and property had been placed under government supervision.

120. Cf. Bank of International Settlements, *Foreign Exchange Regulations in the Different Countries* (Basle, 1940), vol. 2, section X; *Journal Officiel*, May 2, 1940, pp. 3209-14.

121. R. B., "Le contrôle des changes," *Economie française*, March 1, 1940, pp. 82-84.

122. For decree of September 1 prohibiting merchandise imports, cf. *Journal Officiel*, September 2, 1939, pp. 10988-89. For details on French foreign trade and exchange regulations, cf. *Moniteur Officiel du Commerce et de l'Industrie* (Paris), *passim*.

123. On export restrictions, cf. decree of September 12, 1939; notice to exporters, *Journal Officiel*, February 16, 1940; *ibid.*, April 10, 1940.

124. Cf. order of February 26, 1940, *Journal Officiel*, March 3, 1940.

125. Cf. *Le Temps*, February 20, 24, 1940.

126. Cf. estimate in "Commercial History and Review of 1939," supplement to *The Economist*, February 17, 1940.

127. The deficit of 123 billions was equivalent to more than 3 billion dollars at the average exchange rate of 2.51 cents per franc for 1939. *Commerce Reports*, May 18, 1940, p. 441.

128. Decrees of September 9, 1939, February 28, 1940. *Le Temps*, April 22, 1940.

129. For details, cf. *Droit Social*, February 1940, pp. 53-55; *Economie française*, February 15, 1940, pp. 57-58; *The Economist*, April 20, 1940, pp. 720-22.

130. Decree-laws of September 1, 9, November 29, 30, 1939. *Droit Social*, March 1940, pp. 80-83. This principle had been applied to defense industries shortly before the war began.

These and other levies produced a tax yield of 15,746 million francs in the first quarter of 1940—30 per cent above the same period of the preceding year.¹³¹ At this rate, however, additional funds were necessary even to cover the civil budget. The government sought to meet all military expenses by borrowing on the financial market, where capital remained plentiful.¹³² No long-term loans were floated, but bank resources and private savings were tapped through the sale of three-month Treasury bills, and "armament" and "national defense" bonds with maturities up to three years. Although statistics on government borrowing were not published, it was stated that during January 1940 all the internal expenses of the state were covered either by taxes or subscriptions to bonds.¹³³

The government was nevertheless forced to raise cash by methods involving the danger of inflation. Between the outbreak of hostilities and the end of February 1940 the state borrowed 20,050 million francs in inflationary advances from the Bank of France under arrangements made prior to the war.¹³⁴ A new convention of February 29, 1940 with the Bank permitted the state to draw almost 25,000 million in additional advances in time of need.¹³⁵ Currency circulation also expanded, largely because of rising prices and the extraordinary war needs of the population. From a total of 125 billion francs on August 17, 1939, note circulation shot up to 146 billion on September 7 and reached a figure of about 156 billion in March and April 1940. Had the war continued, there is little doubt that extremely drastic fiscal measures would have been necessary to check the vicious spiral of ascending costs and prices.

CONCLUSION

Compared with the standard set by totalitarian Germany, the economic mobilization carried out by the Allies was far from effective. While the

Reich was operating its war industries at capacity soon after September, the Allies were still engaged in converting their peace-time economies to a war basis. Both countries, particularly France, had done considerable advance planning, but the execution of such plans had been largely deferred until the actual outbreak of the war. As democratic, parliamentary countries, still devoted fundamentally to free, private enterprise, France and Britain displayed a natural reluctance, in time of peace, to subordinate the satisfaction of human wants to preparations for war. Even after the fighting began the attempt to reconcile democratic governmental machinery and totalitarian warfare intensified the administrative difficulties inherent in a full-scale military effort. Moreover, both countries tended to rely too heavily on the ultimate superiority of their economic resources without due consideration for immediate military preparedness.

France was, on the whole, much more thoroughgoing than Britain in organizing its war economy. Although the French government did not adopt as far-reaching measures as Germany, it put into effect very stringent controls and imposed heavy sacrifices on all classes of Frenchmen. The economic structure of France had been weakened, however, by a prolonged depression, and national unity impaired by many years of social strife. French economic life was also more gravely disrupted in the confusion of national mobilization than was the case in Britain or Germany. Basically this was due to the sudden, massive withdrawal from industry and agriculture of able-bodied workers for military service, which forced the country to draw heavily on all its reserves. The problem of labor supply was crucial, and some of the strictest measures of compulsion were adopted to meet it.

While Britain started the war with a fairly sound economy, it was comparatively slow in mobilizing its vast resources. The Chamberlain government did not fully awaken the British people to the necessity for sweeping, rapid action and universal sacrifices. In large part it lacked the aggressive, dynamic personnel required to galvanize the war effort. There was apparently no well-integrated plan, and coordination was sometimes faulty. Not until May 1940 did the government actually proceed with complete economic mobilization. Since that time the British people have fully measured up to the national emergency. The immediate future will demonstrate whether their efforts have come too late.

131. Calculated from tax returns in *Le Temps*, March 21, April 15, May 13, 1940.

132. Private borrowing in the financial market was not restricted to defense industries until May 22, 1940. *The New York Times*, May 23, 1940.

133. Statement of Paul Reynaud, *ibid.*, February 23, March 2, 1940.

134. For text of convention between the state and the Bank of France, cf. *Journal Officiel*, September 29, 1938, pp. 10968-69; also convention of November 12, 1938, *Journal Officiel*, November 13, 1938, pp. 12882-84.

135. Cf. René Sédillot, "Convention de guerre avec la banque de France," *L'Europe Nouvelle*, March 9, 1940, pp. 263-64.

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ECONOMIC DEFENSE OF THE WESTERN HEMISPHERE

By Howard J. Trueblood